VZCZCXYZ0000
OO RUEHWEB

DE RUEHSO #0487 2621109
ZNR UUUUU ZZH
O 181109Z SEP 08
FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8523
INFO RHEHNSC/NATIONAL SECURITY COUNCIL WASHDC IMMEDIATE
RUEHBR/AMEMBASSY BRASILIA PRIORITY 9655
RUEHRI/AMCONSUL RIO DE JANEIRO PRIORITY 8852
RUCPDOC/USDOC WASHDC 3174

UNCLAS SAO PAULO 000487

SIPDIS

STATE INR/R/MR; IIP/R/MR; WHA/PD

DEPT PASS USTR

USDOC 4322/MAC/OLAC/JAFEE
E.O. 12958: N/A
TAGS: KMDR OPRC OIIP ETRD XM XR BR
SUBJECT: GLOBAL ECONOMY

1.The Bubble of Omission

Lead editorial in center-right O Estado de S. Paulo (09/18) says: "The U.S. authorities permitted the bankruptcy of Lehman Brothers, a major investment bank, and several small banks, but refused to watch passively, in the name of principles, the collapse of an institution such as AIG, capable of carrying with it several smaller financiers. At this point, it is useless to discuss whether the moral hazard concept is valid only in certain situations and whether the government, after all, will be willing to rescue badly administered companies if their bankruptcy were capable of causing major damage to the system. .. According to the doctrine, capitalism is a system of risks and everyone should pay for his mistakes and the government should never, by its intervention, stimulate irresponsible action. But how can one not intervene, when the damages may affect the whole system? ... The present situation, however, is not only a result of uncontrolled factors, but mainly of factors not controlled because of a political decision. By not having foreseen the risks, the authorities now improvise solutions, unable of re-establishing the security for more than a few hours or days."

2.Regulation, the key word in the global financial crisis

Editorial in economic newspaper Valor Economico (09/18) comments: "One of the many lessons to be learnt from the world financial crisis is the urgent need to re-think the role and extent of market regulation, especially in times of globalization such as today. For years, specialists in international finance and representatives of the banking system publicly defended the thesis that less regulation in the sector, following the recent American model, would benefit Brazil a lot by favoring credit expansion, the essential fuel for the accelerated economic growth so much desired by the country in recent decades.... What we can affirm from this scene of bankruptcy of traditional U.S. investments banks and billion-dollar intervention by central banks ... is that there were terrible flaws in the evaluation and implementation of regulatory norms in certain segments of the U.S. credit system, which now serve as an alert for other government leaders."
White